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SUBJECT: LEBANON: LEBANON BEGINS DISBURSING ASSISTANCE TO GAZA
(ECONOMIC WEEK IN REVIEW, JANUARY 12 - 18, 2009)

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LEBANON BEGINS DISBURSING
ASSISTANCE TO GAZA

[11](#). (SBU) After the Lebanese Cabinet's \$1 million assistance pledge to Gaza on December 30 (reftel), Lebanon sent its first shipment of in-kind assistance to Gaza by plane via Jordan on January 3. The shipment consisted of 17 tons of medical supplies and equipment and 2,060 blankets. Ambassador Khalil Mekkawi, Head of the Lebanese-Palestinian Dialogue Committee, estimated the value of this first load of assistance to be approximately \$200,000, and said Lebanon will send subsequent deliveries to fulfill the million-dollar pledge based on needs submitted by the Palestinian Health Ministry in Gaza.

[12](#). (SBU) In its December 30 meeting, the cabinet also approved the launch of a campaign to collect contributions for Gaza. The Lebanese-Palestinian Dialogue Committee launched a media campaign and opened an account for donations.

CABINET APPOINTS OPERATORS TO MANAGE
AND EXPAND MOBILE NETWORK

[13](#). (U) The cabinet selected Egyptian company Orascom and Kuwaiti Zain (currently managing one of the GOL-owned companies) for a one-year management contract, renewable for a second year, starting in early February for the two GOL-owned mobile companies. In a press conference on January 15, Telecom Minister Gebran Bassil said the contracts should result in each company absorbing 400,000 additional subscribers by the end of April 2009. This will allow

the GOL to lower tariffs without losing revenues. Bassil pledged to submit a proposal to lower mobile tariffs to the cabinet by the end of January, hoping to begin implementation by February or March at the latest, he said.

CENTRAL BANK PLANS TO ENCOURAGE
PRIVATE SECTOR LENDING...

14. (U) On January 13, Governor of the Central Bank of Lebanon (CBL) Riad Salameh publicly said the CBL is working with the GOL to encourage commercial bank lending in Lebanese pounds to the private sector to stimulate economic growth. Salameh explained that the fall in the dollarization rate of deposits since the start of the global financial crisis (from 77.3 percent at the end of 2007 to 69.7 percent by November 2008) has increased banks' liquidity in Lebanese pounds. The proposal consists of subsidizing interest rates on loans in Lebanese pounds as well as lowering obligatory reserves imposed by the CBL on pound-denominated deposits in banks. (Note: The GOL already subsidizes loans in the industry, tourism, agriculture, and information technology sectors. End note.)

15. (U) Meanwhile, Salameh estimated GDP growth at six percent for 2008 and inflation between eight to ten percent, and concurred with the IMF's projection of five percent growth for 2009. He expects the dollarization rate of deposits to drop further in 2009. He also expects interest rates on local currency to remain stable or drop slightly in 2009.

... AND EXPECTS ANKS TO ROLLOVER
2009 EUROBOND MATURITIES

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16. (U) Salameh said the CBL's foreign currency assets (excluding gold) reached a record high \$20 billion in 2008 as a result of conversions of foreign currency-denominated deposits to Lebanese pound deposits which offer higher returns. The CBL purchased about \$8 billion in excess dollar supply from the foreign exchange market, he said. This increased demand for Lebanese pounds will also encourage a drop in interest rates on certificates of deposit in Lebanese Pounds and consequently will facilitate the roll-over of \$2.6 billion in Eurobonds that will mature in 2009, he said.

CABINET WILL CONTINUE 2009
BUDGET DISCUSSIONS NEXT WEEK

17. (SBU) On January 12 and 13, the cabinet discussed the 2009 budget proposal and approved the budget figures, but discussions were postponed because of disagreement on allocations to the Council for the South for compensation for the 2006 war, a senior source at the Finance Ministry told us. The source said the cabinet will meet next week to continue budget discussions. (Note: The Council for the South, along with several other GOL institutions, has long been criticized as little more than an instrument of political patronage. The annual budget discussion always includes calls for closure of these institutions, but political horse-trading has thus far always resulted in their continued existence. End note.)

EIU: GDP GROWTH DOWN TO 2.7 PERCENT,
MOBILE PRIVATIZATION UNLIKELY IN 2009

18. (U) The Economist Intelligence Unit's (EIU) latest report on Lebanon maintained its estimate for real GDP growth at 4.2 percent in 2008, and revised downwards its forecast for 2009 from 3.1 percent to 2.7 percent. It attributed lower growth in 2009 to spillovers from the global economic slowdown (indirectly impacting local tourism, real estate, construction, and the financial sector), a rise in political uncertainty due to upcoming parliamentary elections, economic contraction in the U.S. and EU, and slower growth in the Gulf, which will have a negative impact on remittances.

¶9. (U) The EIU expects little progress on the GOL's economic reform plan, especially mobile privatization, because of unfavorable global market conditions and domestic opposition. Immediate risks from the global crisis to the local banking sector remain limited. The report also noted its fears that the global liquidity freeze could increase pressure on the GOL, which needs to roll over large volumes of debt instruments and take on new debt.

LEBANON'S QUALITY OF LIFE SUPERIOR
TO AVERAGE IN MENA REGION

¶10. (U) International Living Magazine's annual Quality of Life Index ranked Lebanon 105 out of 195 countries worldwide, and four out of 20 MENA countries in 2009, compared to 104 out of 194 countries worldwide and five out of 20 MENA countries in the previous survey. Lebanon's quality of life was considered above average in the MENA region. The index assesses nine components of quality of life, including: cost of living, culture and leisure, economy, environment, freedom, health, infrastructure, safety and risk, and climate.

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